

GLORY RESOURCES, LTD.

Oil and gas Production and Management

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December 5, 2002

U.S. Department of Agriculture
Rural Business-Cooperative Service
1400 Independence Avenue, SW.
Washington, DC 20250-3220

Attention: Pandor Hadjy – Assistant Deputy Administrator, Business Programs

Re: Public Meeting
Implementation of Section 9006
Farm Security and Rural Investment Act of 2002 (Pub. L. 107-71) (the “Act”)

Dear Mr. Hadjy:

According to the *Federal Register* issued November 22, 2002 (Volume 67, Number 226), the Rural Business-Cooperative Service (“RBS”) wants to initiate a dialogue and is seeking comments about how to implement a loan guarantee, direct loan, and grant program to finance renewable energy systems and make energy efficiency improvements in accordance with Section 9006 of the Act (the “Program”). The objective of the Program is to support energy self-sufficiency and promote rural economic development.

We are in the oil and gas production and management business in rural East Texas and we are associated with numerous small oil and gas producers and energy service companies headquartered in and operating out of rural areas throughout Texas. We appreciate the opportunity to offer our comments regarding how we think the Program can best support energy self-sufficiency and promote rural economic development.

A review of TITLE IX – ENERGY of the Act indicates various purposes and criteria including:

- (1) Increasing the energy independence of the United States;
- (2) Providing beneficial effects on conservation, public health, and the environment;
- (3) Creating jobs and enhance the economic development of the rural economy;
- (4) Assisting rural small businesses in becoming more energy efficient;
- (5) Likelihood the projects will produce electricity;
- (6) Availability of adequate funding from other sources;
- (7) The number of rural small businesses to be assisted by the Program;
- (8) The potential for energy savings resulting from the Program.

The above eight (8) purposes and criteria shall be considered in our comments below and our comments will be limited to the idea of “making energy efficiency improvements” rather than “renewable energy systems”.

Issue 1. – The Act stipulates that financial assistance may be provided to make energy efficiency improvements.

What projects should be eligible for funding? In the oil and gas industry, we have many “old” producing fields that now have marginal oil and gas production. At one time, the fields may have been prolific producers but now, after many years of production decline, the fields are marginal. These marginal fields should not be abandoned because together they represent significant oil and gas production. Coincidentally, these marginal fields are often times surrounded by rural communities that, at one time, were thriving with the boom of oil and gas drilling, but are now economically depressed. The Program should fund a project that would add efficiency improvements in the production of energy from these old marginal oil and gas fields and, at the same time, bring new life into depressed rural communities by generating new economic activity.

For instance, many of these marginal fields produce oil and gas via pumping units and, since many of these fields are in remote areas, the pumping units are powered by natural gas engines (i.e. electric lines not available). The natural gas from the well is used to fuel the pumping unit engine. At first glance, this would seem an efficient operation but, with a natural gas engine, the well cannot be produced on an electric “time clock”. With a natural gas engine, the pumping unit has to be turned on and off manually by the well “pumper”. The pumper is a worker who checks on the well once a day and who normally spends ten (10) minutes to an hour at the well location each day. (Note: the pumper cannot spend all day at one well location). On these marginal well pumping units, typically the pumper turns the unit on one day and off the next day. During that 24 hour period, the well may have pumped all the oil out of the well bore in 12 hours, so that the well is pumping “dry” for 12 hours. Pumping a well “dry” for 12 hours not only waste natural gas, it causes premature wear and tear on the pumping unit and all the components of the production process (i.e. downhole pump, rods, tubing, etc.). When a well can be produced on an electric “time clock”, the well can be turned on and off automatically by a timer switch. In the above example, the well could be set to produce for 12 hours and then be turned off. Producing a marginal well on a time clock is a great way to make energy efficiency improvements.

The question is “How do we provide electricity in this remote location?” We think with funding from the Program, it will be economically feasible to generate electricity

“on-site” with natural gas fired turbines and/or fuel cells (Note: using fuel cells may meet the future criteria of Section 9007. of the Act). The natural gas from the wells would be used to run the engines of the on-site generating equipment. The generating equipment will generate electricity to run the pumping units in the field on time clocks and, thus, energy efficiencies will be realized.

Another example of a project which should be eligible for Program funding is where small volumes of natural gas from a field are vented or flared because there is not enough gas production to justify laying a gas pipeline and the gas is not needed to fuel production equipment. The natural gas is totally wasted! It may be, in this example, that there are electric lines near the producing wells. We think with funding from the Program, it will be economically feasible to generate electricity using the wasted natural gas to fuel “on-site” generating equipment and to sell the electricity into the power grid or to neighboring oil and gas fields which need electricity to run its production equipment.

Given the current economics of these marginally producing fields and the current cost of electrical generating equipment, it is not economically feasible to lay new electric lines or provide on-site generating facilities necessary to electrify the fields or sell electricity into the power grid. But, these are two (2) examples of where the Program funding can be used to increase the energy independence of the United States, provide beneficial effects on conservation and the environment; create jobs and enhance the economic development of the rural economy, assist rural small businesses in becoming more energy efficient, increase the likelihood projects will produce electricity and create potential energy savings.

Should certain types of projects receive priority for funding? Yes, on energy efficiency improvement projects where it can be demonstrated that Program funding is the necessary ingredient to make the project economically feasible and where the projections are based on reasonable and supportable data. Also, if the project can accomplish more than one (1) purpose and meet numerous criteria of the Act, it should receive priority. If a test for “stewardship” could be developed, it would be nice!

Should preference be given to new, innovative technologies or proven technologies? In the examples we mentioned above, the proven technology to make energy efficiency improvements is there, but it is not yet economically feasible in our desired application. Fuel cells are a good example of this. It seems the best use of Program funding is to “bridge the gap” in order to accelerate the economic feasibility of using proven technologies. The usage of proven technologies will increase the production of these technologies and, theoretically, cause the price of these technologies to go down due to

production efficiencies gained. By giving preference to proven energy efficiency improvement technologies, as a by-product, the Program achieves some of its desired objectives (energy savings, etc.) outside of rural areas.

Issue 2. – Loan guarantees, direct loans, and grant programs are authorized under the legislation.

What type of financial assistance is most in need (i.e. grants, direct loans, or loan guarantees)? To make the energy efficiency improvement projects we described above work, we need grants and low interest, long-term direct loans. We have the credit to get a “market loan. But, with a “market” loan, the project is not economically feasible. We need grants and low interest, long-term direct loans in order to “bridge the gap” and accelerate the economic feasibility of using proven technologies.

Issue 3. Section 9006 states that, in determining the amount of grant or loan, the Secretary shall take into consideration various factors, as applicable:

What other factors, if any, should the Department consider in determining the amount of grant or loan? Under Section 9006. (c)(2), the term “renewable energy system” is used almost exclusively. The term “energy efficiency improvement systems” should also be used. In that regard, the “other factors” to be considered should be the type of energy efficiency improvement system to be purchased, the estimated quantity of energy to be generated by the energy efficiency improvement system, the expected environmental benefits of the energy efficiency improvement system, the extent to which the energy efficiency improvement system will be replicable, the estimated length of time it would take for the energy savings generated by the activity to equal the cost of the activity, less the salvage value of the energy efficiency improvement system equipment. Also, the Department should consider the amount necessary to make the energy efficiency improvement project economically feasible.

Should certain types of projects or geographic areas be targeted and given preference for financial assistance? Yes, projects that can demonstrate more than a single benefit (i.e. helping depressed rural oil and gas communities and producing energy efficiency improvements at the same time) and projects that help depressed rural areas should be given preference.

Issue 4. --- What are various sources of program matching funds (i.e. other Federal, State, local, or private programs)? Other sources of funding are other Federal rural development programs under RBS, OCD and RUS.

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Thank you for the opportunity to submit these comments.

If you have any questions or need additional information about any of the comments, please let me know.

Sincerely,

Barry D. Robinson